G-75

ad4Ge

Crop Insurance for Wheat

A summary of the report of the President's Committee on Crop Insurance as it pertains to wheat

United States Department of Agriculture
Agricultural Adjustment Administration

The President's Committee Recommends Crop Insurance That Would

Insure yields rather than prices, bushels rather than dollars—

Secure the farmer against the need of relief by helping him put aside part of his crop for sale or use in years of crop failure—

Hold reserves in the form of wheat so that, among other things, if the wheat increased in value the farmer would get the advantage of such increase—

Provide the farmer a steadier income by assuring him from half to three-fourths of his average crop every year—

Pay losses out of premiums, with overhead administrative expenses and storage costs paid by the Government—

Base the cost of insurance on the farmer's own loss experience adjusted to the loss experience of his area—

Use existing State and local conservation committees and existing grain handling and storage agencies—

Require a minimum amount of participation by counties or regions before insurance is made available there—

Coordinate any insurance program that may be adopted with other functions and programs of the Department of Agriculture.

Crop Insurance for Wheat

PRESIDENT ROOSEVELT on September 19, 1936, directed that a study be made of the feasibility of "all-risk" crop insurance as a part of a long-time drought and land-use program. The President stated that the following considerations urged such a program: First, protection of the individual farmer's income against crop failure or price collapse; second, protection of consumers against shortages of food supplies and extremes of prices; and third, assistance to both business and employment through providing an even flow of farm supplies and the establishment of stability in farm buying power.

Reporting on December 23, 1936, the President's committee on crop insurance made recommendations for an insurance plan which would offer wheat farmers insurance on a designated percentage of their average yield against loss from unavoidable causes such as drought, flood, hail, wind, tornado, insect pests, and plant diseases. All premiums would be paid in actual wheat or its cash equivalent and actual wheat would be stored by the Government for payments of losses to farmers. Crop losses would be paid out of premiums, but storage and all overhead costs of administration would be paid with funds appropriated by the Government.

The Government would provide reserves which could be drawn upon to meet extraordinary losses should they occur before a reserve could be built up out of premiums.

Salient features of the proposed program and some of the considerations which prompted the recommendations of the President's committee are presented in this pamphlet in response to many requests for such information.

The Purpose of Crop Insurance

The President in his message to Congress on crop insurance, February 18, 1937, called attention to the dual nature of the problem of adequate agricultural income. He said, "During the past 4 years the Government has assisted farmers in meeting emergencies of two different types. The first was the collapse of prices resulting from huge surpluses for which foreign markets had disappeared. The second was widespread failure of crops resulting from drought." Both aspects of that problem are likely to face the individual farmer recurrently in the future.

Crop insurance, as proposed by the President's committee, is an attempt to prepare for such emergencies before they arise, particularly the emergency occasioned by drought or other natural hazards to crop production. By saving a part of production each year against a probable time of need for it, crop insurance proposes to level off the lean years with part of the surplus of normal or fat years.

In this way, two major benefits are hoped for: (1) The disastrous effects of crop failure would be lessened because the insured farmer would always

have available for sale or use the crop savings of better years; and (2) the problem of unmarketable surpluses in bumper years would be partially met by storing part of the surplus against a day of greater need. By thus preparing for the emergency before it arises, crop insurance proposes to give the individual farmer the opportunity not only to further his own agricultural security, but also to help in eliminating the Government's present burden of agricultural relief.

The Particular Need for Wheat-Crop Insurance

The President's committee recommended that crop insurance be applied first to wheat because it is a major crop whose production is subject to variations which are both extreme and unavoidable and because available statistical data on wheat afforded a good actuarial basis for crop insurance. Natural hazards are a necessary part in the production of high-protein hard wheat, since it grows only in semiarid areas where the danger of drought is always present. The Great Plains of the United States, the Prairie Provinces of Canada, the southern wheat area of Argentina, and the drier portions of the black-earth regions of Russia are the principal producing areas for this type of wheat.

Because of this uncertainty in production, alternating large and small carry-overs of wheat in the United States are no novelty. In 1900 the carry-over was not far from 150 million bushels, a large carry-over for that time. In 1905, after the short-crop year of 1904, the carry-over was cut to less than half that amount. By 1907 it was back near the 1900 level, but with small crops in 1907 and 1908 the carry-over in 1909 was the smallest since 1900. By 1911 the carry-over was more than double the 1909 figure, but by 1915 it was about halved again. With a record 1915 crop, the 1916 carry-over was at a new high up to that time, but by 1918 it had dropped to a record low. Likewise, the record carry-overs of a few years ago have now been drawn down to around 90 million bushels for the current year.

Anything that will make for a better distribution from year to year of this erratic production should be a boon to producers and to consumers alike. The scarcity prices that result from successive years of drought benefit neither consumer nor producer, for the one buys less and the other has less to sell. In the case of many a wheat grower in recent years, there was absolutely nothing to sell. Crop insurance is proposed as a means of avoiding such unevenness in annual distribution of production.

What Wheat-Crop Insurance Would Insure

Obviously, insurance cannot guarantee the farmer that accidents to his crops will not occur. But it can guarantee him some income when they do occur. It can guarantee a definite return from every seeded acre.

The problem before the President's committee was largely one of determining what form the return should take. The committee's studies led to the conclusion that the most feasible plan was one that ignored price entirely and reckoned both premiums and indemnities in terms of the commodity that was to be insured. Consequently, the committee's proposed plan for wheat crop insurance deals only in terms of wheat, not in terms of price or dollars. The premium a farmer would pay is computed in bushels of wheat. The indemnity he would collect for his losses

is expressed in bushels of wheat. Reserves of the proposed Government insurance organization would be actually held in bushels of wheat.

Hence, the proposed plan does not guarantee the farmer a certain price for his wheat. It guarantees only that he will have wheat of a standard grade and class to put on the market at whatever price the market pays at the time.

Two major considerations led the committee to recommend this type of crop insurance:

First, payment in wheat, or in the cash that the wheat would sell for at the time of payment, would avoid the necessity of insuring prices as well as yields. The experience of private companies has indicated that to try to insure both yields and price at the same time is to invite failure of the whole plan. Price fluctuations are caused by too many other things besides what the farmer does or what happens to his crops. The farmer can insure, however, against unavoidable losses to the yield of his crop. He can do this quite simply by saving a part of his crop and depositing it in storage against the time when he has a crop loss or a crop failure.

Second, payment in wheat, or in the cash that the wheat would sell for at the time of payment, would provide for the insured farmers a form of ever-normal granary. Wheat would be taken off the market in years of good crops and would be put back on the market mainly in years of poor crops. Premiums paid in good years would be held as reserves to pay indemnities in bad years. In this way the difficulties of the Farm Board plan would be avoided, since the reserves would be definitely held for the payment of indemnities in poor crop years, and so would not serve at other times as a market-depressing potential supply. The accumulation and release of reserves would be automatically regulated by the crop-insurance requirements.

This type of insurance would give the producer the benefit of any price advance there might be in short crop years when loss payments are largest and most numerous. Had crop insurance of this type been in effect on all the wheat acreage from 1930 to 1935, inclusive, the net gain in value of the wheat used in paying losses would have amounted to about $35,000,000 for the seven Great Plains States alone.

This figure is based on actual wheat prices during that period. It does not allow for the probable stabilizing effect of such insurance on wheat prices. The degree of stability achieved will depend considerably on the extent of participation in the plan, and cannot be determined until the plan is actually in operation. Any increase in stability would tend to lessen the increase in wheat value between the time of premium payments and the time of loss payments, but whether the net gain is in increased value or in increased stability matters little. In either case, both producers and consumers stand to benefit.

Simply stated, the proposed plan of crop insurance puts the insured farmer in the same position as that of the farmer who has the storage space and is financially able to store wheat himself against the day of need. The insured farmer has the additional advantage of storing his wheat with an insurance company, where his possible losses are backed up not merely by his own wheat but by a large joint reserve protected against deterioration and adequate to meet all loss payments.

What the Proposed Wheat-Crop Insurance Would Cost

In commercial insurance, premium rates have to cover two important groups of expenses, (1) cost of losses, and (2) administrative expenses.

In the proposed plan of crop insurance for wheat, the premium rates are constructed to take care of cost of losses. Overhead administrative expenses and storage costs are to be borne by the Government.

The President's committee recommended that premium rates be based on both individual and regional loss experience.

The following example of an actual farm illustrates such a method of determining premium rates. It will be noted that the premium to be paid is determined in part by the record of crop losses on the insured farm and in part by the record of crop losses for the county.

TABLE 1.—*An illustration of the procedure suggested for determining the amount of insurance and the premium charge for a single farm*

Year	Yield per seeded acre	Insurance coverage under the 75-percent plan	Indemnities that would have been paid per acre
	Bushels	*Bushels*	*Bushels*
1930	8	6	0
1931	15	6	0
1932	4	6	2
1933	10	6	0
1934	0	6	6
1935	11	6	0
Total	48		8
Annual average	8		1⅓

This procedure was followed for 75 sample farms in each county to determine the average indemnity per acre for the county. Assuming that the 6-year county average indemnity per acre was determined to be 1 bushel, the method recommended for determining the annual premium on the above farm would be as follows:

	Bushels
Average annual indemnity per acre for farm	1⅓
Average annual indemnity per acre for county	1
Total	2⅓

Suggested annual premium per acre for this farm:

2⅓ bushels ÷ 2 = 1⅙ bushels

It is generally understood, however, that the period 1930–35, inclusive, is not a representative period in all sections of the Wheat Belt. Consequently, it seems advisable to go a step further and adjust the average yield for the 6-year period to a 10-year basis. This is done by making a comparison between the 10-year average yield for the whole county and the 6-year average yield for the whole county to see how much the 1930–35

period was out of line with the longer average. A corresponding adjustment would be made in determining the premium rate.

In this plan of crop insurance, coverage and premium rates would vary from farm to farm. This is necessary in carrying this kind of risk. If a county average rate or a rate covering a rather wide zone were used, high-risk farms would have bargain rates and low-risk farms would be paying high for their protection. The result would be that the insurance would be adversely loaded with high risks. Risks in wheat production are highly variable. They may be affected by the farm's location on a creek or river that overflows or by any number of different circumstances. Consequently, these factors must be considered in arriving at an equitable premium.

How Losses Would Be Paid

Under the plan recommended by the President's committee, losses would be paid for either in wheat or with a participation certificate entitling the owner to a quantity of wheat which he might dispose of at his own pleasure, he to begin paying storage costs after loss settlement, or in the cash equivalent of such wheat. If a storage point were conveniently located, the farmer could present his participation certificate for redemption and get the actual wheat, should he want it for seed or other purposes.

In general, farmers in years of good crops would be paying in more in the form of premiums than they would be receiving in loss payments. On the other hand, in poor crop years farmers would be receiving more in loss payments than they would be paying in as premiums. Any advance in price between the years of good crops and the years of poor crops would be reflected back to the producers.

Carry-Over Now Costs Farmer Without Indemnifying Him for Crop Losses

At present that part of the total wheat crop of the United States which is produced but cannot be used during the year is laid aside and called carry-over. Such part of the carry-over that farmers cannot put by for themselves must be held by someone else. Over a period of years the part that is held by others must be obtained at a price to the farmer that on the average is not likely to cause the holders a loss, even though they do lose in some years. Whatever that net reduction in price is over a period of years is cost to the growers for a service they are not able to furnish themselves.

Under the plan recommended by the President's committee, that part of the crop paid in as crop-insurance premiums would be put by for farmers to be paid back to them when they had crop losses due to unavoidable causes for which they were in no way to blame. Crop-insurance premiums, therefore, would go to make up a mutual farmer-owned reserve to be drawn upon in years of short crops just as the carry-over now largely owned by others is drawn upon in short crop years but not for the benefit of growers who have lost their crops.

Bollin

Administration of the Proposed Insurance Plan

The proposed insurance plan would be administered through local committees of producers insofar as possible.

Local handling and storage facilities would be employed in the payment of premiums. To protect the Government against undue expenses in this regard, a minimum of participation in the insurance would be required before it could be made available to a given county or area.

General administration of the proposed insurance program would be a function of the Department of Agriculture.

Crop Insurance and Conservation

Crop insurance fits in naturally with the broad outline of the Department of Agriculture's soil conservation program. It is in essence a conservation measure applied to weather. It is an attempt to conserve part of the bounty of seasons of good weather for use in seasons when the weather has been unfavorable.

Just as the soil conservation program seeks to conserve the value of the seed-bed, so crop insurance seeks to conserve the value of the harvest.

U. S. GOVERNMENT PRINTING OFFICE: 1937